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NATIONAL INTELLIGENCE DAILY CABLE

Monday July 25, 1977

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Monday, 25 July 1977

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The NID Cable is for the purpose of informing senior US officials.

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Spain

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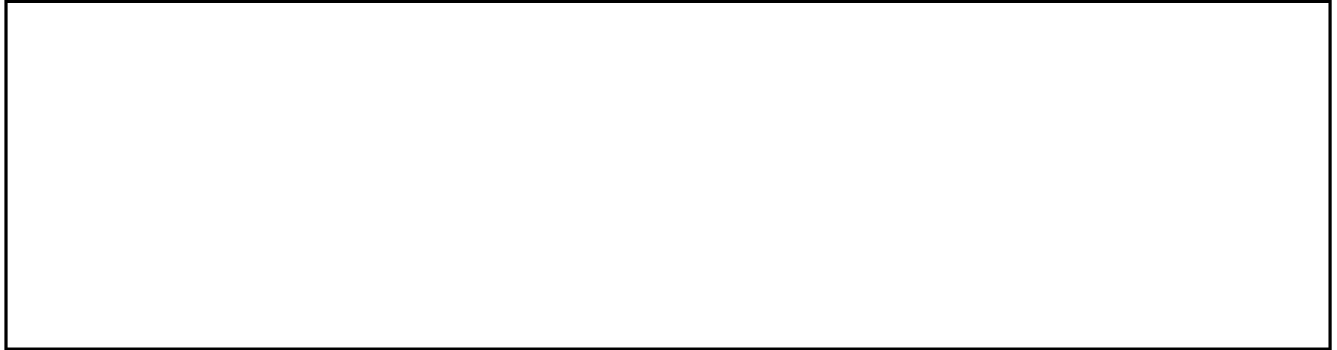
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USSR: President's Charleston Speech

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[REDACTED] *Initial Soviet commentary on President Carter's speech in Charleston last week has been low key and, for the most part, reportorial. A Tass account of the speech in Pravda is deliberate in tone and avoids polemics.*

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[REDACTED] Using selective quotations, the Tass article favorably summarizes the President's remarks about the character of Soviet-American relations. It notes his emphasis on the profound differences between the two countries, the competitive nature of the relationship, the desire to expand areas of co-operation, and the need to pursue policies based on enlightened self-interest. The article took special note of the President's citation of President and party leader Brezhnev's hopes for a more peaceful world.

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[REDACTED] The Tass account was also unusually restrained in its handling of the President's remarks on human rights. Avoiding criticism or comment, the account acknowledged only that the President had said "we stand on what we have said on this subject before."

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[REDACTED] The only critical comments concerned the US approach toward the arms limitation negotiations. Without quoting the President, Tass repeated the familiar Soviet position that he was upholding a policy of seeking "unilateral advantages" for the US. The article declared that the President "sidestepped" recent decisions concerning cruise missiles, the neutron bomb, and other weapons that "seriously complicate the attainment of the President's aims." Tass concluded by saying that improvement in Soviet-American relations "depends in many ways on the direction in which US policy will develop further."

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25X1 [] The reaction to the speech is consistent with the approach of "reserve and patience" recently advocated in an editorial in the foreign affairs weekly, *New Times*. The cautious response contrasts with Soviet comment on the President's address at the University of Notre Dame earlier this year.

25X1 [] It is doubtful that the Tass report represents the Soviets' definitive reaction to the Charleston speech. By avoiding a strident response, however, they have preserved the option of accepting the speech as a step toward improving the current state of Soviet-American relations. []

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CSCE: Soviet Communist

25X1 [] *The head of the Soviet delegation at the Belgrade Conference on Security and Cooperation in Europe, Yuly Vorontsov, informed his US counterpart late Friday that Moscow may be willing to accept a new formulation by a neutral delegation on the duration of the main meeting in the fall and thus wrap up the current session as early as the end of this week.*

25X1 [] The new formulation, submitted by the Swiss, states that the fall review conference will endeavor to complete its work by December 15, but that if it has not finished drafting a concluding document by that date, it will adjourn, reconvene on January 4 or 10, 1978, and continue for up to three weeks. The Swiss proposal also stipulated that the concluding document must include the date and place of the next review meeting.

25X1 [] Vorontsov said he could not accept a direct reference to the date and place of the next meeting, but could agree to some oblique reference in the document to the requirement to agree on such a meeting. []

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SRI LANKA: Landslide Victory

[Redacted] The landslide electoral victory last Thursday by J. R. Jayewardene's United National Party over ex-prime minister Sirimavo Bandaranaike and her Sri Lanka Freedom Party probably presages no radical changes in domestic or foreign policies.

25X1 [] Jayewardene as sworn in as prime minister on Saturday. His party apparently won 140 of the 166 seats contested. Bandaranaike's party won only 8 seats including her own and the one won by her son AAnura.

25X1 [] The candidates of the largest ethnic minority, the Tamils appear to have won 18 seats, about what was expected. The United Left Front, a coalition of leftist parties, was routed; all of its candidates were defeated, including the leaders of the Trotskyite and communist parties who had long held seats in parliament.

25X1 [] Jayewardene himself is largely responsible for the outcome. At 71, he has been involved in Sri Lankan politics for over 35 years and is acknowledged as the country's most accomplished political strategist. Since becoming the National Party's president in 1973, he has worked hard to reorganize and unify the party and change its image from that of a pro-Western, capitalist party to a more moderate and populist one.

25X1 [] Although an aloof personality, Jayewardene's reputation as a strict Buddhist and uncompromising moralist, as well as his provincial background--unlike most other Sri Lankan political leaders he was not educated in England--have contributed to his popularity.

25X1 [] Voter dissatisfaction with the country's faltering economy, however, was the major cause of the Freedom Party's defeat. Sri Lanka suffers from an array of economic problems, including high unemployment, inflation at 10 to 20 percent a year, slow growth, chronic balance-of-payments and budget deficits, low foreign-exchange reserves, commodity shortages, and a heavy reliance on tea and rubber exports.

25X1 [] Economic problems, coupled with the inability of successive governments to cope with the island's unemployed and dissaffected youth, led to a violent insurrection in 1971 by thousands of young Sri Lankan radicals.

25X1 [] Like Morarji Desai, the new prime minister of neighboring India, Jayewardene has committed himself to the restoration of human rights and political freedom, which he believes were undermined during Bandaranaike's administration. He has

stated that he intends to investigate excesses committed by Bandaranaike's government during the six-year state of emergency imposed as a result of the 1971 insurrection and continued until last February.

25X1 [] Jayewardene also claims he will ensure the independence of the press and judiciary. Most Sri Lankan newspapers are now controlled by political parties and the courts are packed with political appointees.

25X1 [] Jayewardene has said that he intends to amend the constitution to allow for a popularly elected president as chief executive while retaining a prime minister and cabinet. He has the necessary votes in parliament to have his proposals enacted. Jayewardene presumably would become the first president.

25X1 [] In foreign policy, Jayewardene is unlikely to seek or command the leadership status accorded Bandaranaike by the nonaligned nations. He has frequently said that his government will be more interested in solving the nation's domestic problems than in dealing with the rest of the third world. Sri Lanka's moderating voice in third world forums may be correspondingly muted.

25X1 [] The National Party's overwhelming margin of victory may eventually prove more of a liability than a benefit. The party has been given a mandate by the voters but will probably prove no more successful in resolving the island's economic problems than Bandaranaike's government has been.

25X1 [] In addition, the election has left opposition supporters, including labor unions controlled by the leftist parties as well as radical youth responsible for the 1971 insurgency, with no effective means to express their discontent other than violence. The Tamil parties, meanwhile, remain committed to press for a separate state on the island--a demand strongly opposed by the Sinhalese majority and one which will severely test Jayewardene's ability to reach an acceptable political compromise. []

FRANCE-EGYPT: Submarines

25X1 [] //Egypt reportedly is negotiating with France to buy two Agosta-class attack submarines--France's most modern conventional submarines. These boats would be a significant addition to Egypt's aging Soviet-built submarine force. Financing could be a major obstacle to such a deal, but Saudi Arabia may provide the funds. Egypt would be the third country to buy the Agosta; Spain and South Africa already have ordered two each.//

25X1 [] [] told the US defense attache in Cairo that, if the deal is concluded, France would probably send Egypt two of the four Agostas now destined for the French fleet. The boats would be available this year.//

25X1 [] [] the Egyptian navy approached the French last year about having French shipbuilders overhaul Egypt's 12 Soviet R-class and W-class submarines. These boats reportedly were capable only of carrying out brief, limited patrols in the eastern Mediterranean and the Red Sea. French technicians who inspected the boats apparently concluded that the Egyptians were performing little, if any, maintenance on them. The French gave the Egyptians an estimate of the repair cost but received no response, probably because the cost was high.//

25X1 [] If the Egyptians decide they want the Agostas, they may be able to obtain Saudi financial backing. President Sadat recently announced that Saudi Arabia had agreed to pay for the development of Egypt's armed forces between now and 1981. Although we do not know the details of the agreement, the Saudis may have committed themselves to pay for major new weapon systems such as the submarines. []

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VENEZUELA: Power Politics

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[] A recent cabinet shuffle in Venezuela is probably the first of a series of moves by President Perez aimed at strengthening his authority in the government and prolonging his influence in the ruling Democratic Action Party. The announcement came just two days before the party's selection of Luis Pinerua Ordaz as its presidential candidate for the election in December 1978. As public attention shifts to Pinerua, power will slip away from Perez.

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[] The most important of the seven newly appointed ministers are Alberto Consalvi as minister of foreign affairs, Major General Paredes Bello as defense minister, and Lauria Lesseur as minister of the presidential secretariat. The new faces enable Perez to respond to growing criticism of his political and economic policies and to ensure that his most trusted people are in key positions.

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[] Pinerua's selection as the Democratic Action standard bearer was the first time the party has chosen a presidential candidate by direct primary. Perez, who would have been in a stronger position to influence selection of a candidate under the former convention delegate system, favored another party hopeful. The announcement of the cabinet changes on the eve of the primary could well have been a calculated effort to detract from Pinerua's center spot on the political stage.

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[] Jockeying for political leverage is vitally important to Perez, who envisions himself as a hemispheric leader and a spokesman for the Third World. Furthermore, by feathering his political nest now, the 54-year-old Perez may still be in a position to seek the presidency in 1988, when he will again be constitutionally eligible. []

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HUNGARY: Kadar Agreeable to CSCE

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[] Hungarian party leader Janos Kadar has indicated to an interviewer for a West German publication that he would be receptive to holding a summit meeting after the CSCE senior-level conference is held in Belgrade this fall. There has been no Soviet reaction to Kadar's remarks.

25X1 [] Kadar was responding to a questioner who claimed that such a meeting had been "suggested" by West German Chancellor Schmidt and Yugoslav President Tito. Kadar stated that a summit "could be useful," but he emphasized that the conference in Belgrade should be completed first. Kadar, however, neither directly advocated a post-Belgrade summit nor did he commit the Hungarians to participate in such a meeting.

25X1 [] Kadar evidently learned of Schmidt's support for a CSCE-related summit during his recent visit to Bonn, and his answer may be an effort to look agreeable without assuming any obligation. At the same time, the Hungarians would like to see detente kept on track, and may favor a European summit that would allow Soviet President Brezhnev to meet with President Carter.

25X1 [] The Yugoslavs, who are receptive to the idea of a summit, immediately reported Kadar's remarks. Neither Soviet nor other East European media have yet mentioned the possibility of a summit.

25X1 [] The Soviet leadership would have difficulty agreeing to participate in a summit associated with the Belgrade conference and would be unlikely to commit the USSR before it is over. It is in the Soviets' interest, at least at the moment, to deemphasize the Belgrade meeting, although this might change if the session is completed with a minimum of fuss. []

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BRIEFS



Spain

[REDACTED] The Spanish government announced this weekend a package of economic and tax reform measures designed primarily to reduce inflation, now at a 30-percent annual rate. Earlier this month, price controls and a 20-percent devaluation of the peseta were announced. Prime Minister Suarez' cabinet has also endorsed the plan to seek full membership in the European Community; a formal application will be submitted on Friday, but negotiations are expected to be prolonged.

[REDACTED] The key new measure is a proposal to negotiate a ceiling on wage increases with the trade unions. Other measures to be submitted to parliament include increased taxes on high incomes and inheritances, a crackdown on tax evasion, higher prices for fuels and electricity, and a 1-percent hike in the minimum lending rate. Proposals on tax breaks for firms that increase jobs and on a new public works program will be directed at Spain's unemployment problem. [REDACTED]

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